Economic Change in Africa and Prospects for Business: An African Perspective*

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More than ever before, it appears that we are presently in a period of great optimism about Africa, based on its consistent growth rates over two decades and on the fact that Africans appear to be learning the rules about how to change government peacefully. Perhaps this optimism is justified, given Africa's fortunes between the late 1970s and the end of the millennium, when it constantly made the headlines for famine, war and poverty. In any case, no continent has been so scrutinized, even by its own people. Obviously, no continent has been the subject of as much music and poetry as Africa, beloved continent and the cradle of humankind.

However, it is pertinent to point out that a range of influential voices in Africa, from the academia to policy circles and civil society, have been expressing disquiet about the cyclical swings in the pendulum of opinion about Africa, from extreme pessimism to extreme optimism. As Mo Ibrahim said of the decision by the prize committee of his Leadership Award this year not to award the prize for the third time in six year, "it has become fashionable to talk about Africa Rising. The Hopeless Continent has become the next investment frontier, as investors consistently make returns impossible elsewhere. Amidst all this optimism, it has become deeply unfashionable to talk about some of the less favourable trends on the continent". The Africa Progress Panel (a group of 10 eminent world leaders led by Kofi Annan) is the latest to raise this caution in its 2012 edition of the Africa Progress Report. The report, which is titled "Jobs, Justice and Equity", raises questions about these three aspects of Africa's condition today. These questions should temper our optimism about Africa's present economic growth and its future sustainability. I will briefly discuss these issues.

It is interesting that a conference themed "Africa Works", which speaks to 'optimism', chose for its keynote speaker, Stephen Ellis, one of Africa's harshest critics, whose views have enjoyed robust commentary in several CODESRIA circles, and who perhaps reflect the pessimism of past years. It suggests to me that the conference wants to strike a note of realism or cautious optimism, as correctly (in my view) recommended by the Africa Progress Report.

Why do we need to be cautiously optimistic, and not either extremely optimistic or pessimistic? Africa's economic growth is consistent, and has been above 5 per cent on average since 2002, except in 2009 when it was below 4 per cent. It is therefore the case that some of the fastest growing economies are in Africa and seven out of every ten people in Africa live in countries that have gown, on average, over 4 per cent between 2005 and 2009. As well, inflation is down – in 1996, 13 African countries had inflation figures above 20 per cent; since the mid-2000s, only 2 are in that category. The high growth rates are on account of factors such as strong export demand as a result of diversification of exports, rising commodity prices, and growing domestic demands. These are factors which are not under the control of African governments and can change if the global economy continues to be in crisis.

Also, not every country is enjoying these high growth rates and the growth has been fuelled in many cases by only a few sectors (natural resources (1/3 of growth, infrastructure, energy and services). Although, there is evidence of some diversification of the sources of growth in Africa; for different countries, the picture is not so diverse. Ghana for example grew by 12.2 per cent in 2011 mainly because of the start of commercial oil exploitation, and different countries continue to depend largely on their extractive sectors. The main problem with this is that Africa's continued growth may be slightly less dependent on world commodity prices, but its fortunes will still be decided by this factor. Thus, for example, the Eurozone crisis is said to be harmful to many African economies, particularly if it continues into the future. Europe remains Africa's most important export destination and source of capital, in spite of the 7.5 per cent of FDI from China, as well as ODA, and all these three areas are under stress.

Even more critical, Africa's agrarian transformation is still pending; that is, the continent is still agrarian in the sense that a significant amount of its GDP (30%) comes from agriculture and the majority of continent's people continue to depend on smallholder agriculture for their survival, except in South Africa and North Africa. While agriculture's share of the economically active population in sub-

Saharan Africa has dropped since 1980, it is still significant, at 53.1 per cent in 2010, down from 60.3 per cent in 1995 and 71.9 per cent in 1980. This would not be a problem if it was not that high, and if agricultural employment and self employment translated into value added production (processing and manufacturing) and decent work.

Manufacturing is considered to have the most potential for promoting sustained growth, employment and poverty reduction. Various factors account for its strategic role in development. These include its role as the main source of technology and innovation, the route through which new technologies are introduced to other sectors of the economy. Manufacturing also provides very strong linkage and spill-over effects for other sectors like banking, transport, insurance and communication services, and agriculture. Manufacturing also contributes to domestic investment, employment and output in the economy. An increase in manufacturing therefore translates into export market expansion (UNCTAD/UNIDO 2011). Unfortunately, Africa's growth has been accompanied by de-industrialization. Africa accounts for a very low share of global manufacturing. While Africa's share of global manufacturing exports improved slightly from 1 per cent in 2000 to 1.3 per cent in 2008; in low- and middle-income countries in East Asia and the Pacific, it grew from 9.5 per cent in 2000 to 16 per cent in 2008. Furthermore, in low and middle-income countries in Latin America, it fell from 5 per cent to 4.5 per cent over the same period. This suggests that African countries have not been able to take advantage of the opportunities offered by manufacturing for growth and development.

Relative to other developing regions, manufacturing in Africa plays a very limited role in African economies. In particular, the share of manufacturing value added (MVA) in Africa's GDP is small. In both developing Asia and Latin America, the picture was different (UNCTAD/UNIDO 2011). The share of African manufacturing in GDP rose from a low level of 6.3 per cent in 1970 to 15.3 per cent in 1990. It then began a significant decline from 15.3 per cent in 1990 to 12.8 per cent in 2000 and 10.5 per cent in 2008. This decline in the contribution of manufacturing to GDP since 1990 was a feature of all African sub-regions, though not to the same degree. Hence, over four decades of economic restructuring has been accompanied by a poor employment creation record in many African countries.

Through self help, Africa's small businesses and enterprises have created jobs. Through their efforts, Africa has some of the highest rates of labour market participation in the world. However, most of these jobs are casual, precarious and offer very poor terms and conditions and few prospects for skills development and upward mobility, what is classified by the ILO as indecent work. This has translated into troublesome income statistics and poverty. In 2005, the UNECA has this to say about joblessness in Africa in its flagship report:

> Poverty in Africa is substantially higher than in other developing regions. More enigmatic is that poverty in Africa is chronic and rising. The share of the total population living below the $1 a day threshold of 46 per cent is higher today than in the 1980s and 1990s – this despite significant improvements in the growth of African GDP in recent years. The implication: poverty has been unresponsive to economic growth. Underlying this trend is the fact that majority of the people have no jobs or secure sources of income (UNECA 2005, p. 1).

What the UNECA describes in 2005 has not changed fundamentally, in spites of some improvements in poverty statistics. According to the 2012 Africa Progress Report, Africa still accounts for a rising share of poverty, accounting for 21 per cent of world poverty in 1999, and 25 per cent in 2008. However, it is also the case that, according to the World Bank's most recent estimates, the share of Africans living on $1.25 a day has reduced from 58 per cent to 48 per cent. This figure is not comforting when the same statistics reveal that 30 per cent or 246 million people in Africa live on an income between $1.25 and $2.50 and only 4 per cent live on more than $10 – and it is this 34 per cent that commentators these days call "Africa's rising middle class". What exactly can you purchase with $2.50 dollars in Bamako? In Accra, it would buy you one meal and some change to get back home from work, but will not be able to buy the ingredients to make soup or cook a meal for your family. Using a range of $10 – $100 to define global middle class, Brookings Institution finds that Africa accounts for 2 per cent of the world's middle class population, with 1 per cent of its purchasing power.

Income inequalities are growing and sharp differences in consumption can be observed from Cape Town to Cairo and from Dakar to Mombasa; but also in the figures on access to basic services such as health, education and water. The social development deficits in Africa remain quite striking, and can be seen in the MDG achievements of African countries. The prevalence of undernourishment fell from 31 per cent in 1990 to 27 per cent in 2008. In 2009, 35 per cent of Africa's children were found to be stunted while child mortality, maternal deaths and primary education have all seen improvements, but have fallen short of MDG goals, which are in themselves quite modest.

Africa also still suffers from serious deficits in the practice of democracy and citizens participation, not to mention the capacity, resource and leadership challenge of African institutions across the board. For example, the lack of data on some of the most development indicators is a serious challenge to policy making. Its growth notwithstanding, Africa's marginality in world Affairs and in the major global policy institutions continues. This is the Africa which has many initiatives started on its behalf, while its own priorities do not receive robust support.

From the foregoing, I hope I have at least drawn a picture of different sides of Africa's changes in the last ten years. They provide opportunities and challenges to business in Africa. The fact that Africa is demographically young is both a challenge and opportunity as is the labour stock the continent has. The recog-nition of the private sector's role has been an important part of the discourse on Africa's development. Unfortunately, this is more rhetorical than concrete in many countries; and where there is action to attract business, it has been more costly than the gains have warranted, a good example being the race to the bottom by African countries to provide the best terms for mining companies. Business has also tended to focus on quick return areas- services (financial, ICT and rites of passage) and distribution of imported goods, and much less on investment in Agriculture.

The recent foray of businesses into agriculture, in the form of speculative land grabbing is a worrying trend. There is widespread agreement that foreign investment in production in agriculture can be beneficial, and continental blue prints such as the Comprehensive Africa Agriculture Development Programme (CAADP) are encouraging such investments. However, speculative activity in the land sector will only displace smallholders and fuel landlessness and the loss of common property resources which are very valuable to the poor.

In the short and medium term, African governments have to ensure that their citizens benefit more from the exploitation of Africa's natural resources. Extractive Industry Transparency Initiative Statistics, such as Zambia earning $50m from mining royalty revenues in 2009 despite the industry generating £5bn in sales, and yet earning $450m from corporation tax from other areas and income and other consumer taxes should be a thing of the past, and the search for FDI should not become a race to the bottom. That beauty contest has not been a positive experience for Africa.

African countries also have to apply some of their increased revenues from growth more seriously to basic services and economic infrastructure, to enable poor people to make a living. Also, they need to create the conditions which promote the creation of more jobs and enable more resilient livelihoods, so that poor people can contribute to economic growth – what the Africa Progress Report describes as "produce their way out of poverty and secure a greater share of the benefits from growth". Areas of labour intensive growth, such as private sector employment, small holder agriculture, rural household non-farm enterprises and the urban informal economy, need concerted and committed support in infrastructure, financial services, technologies, skills development and regulatory environment, to create an easier climate for business and also protect the rights of workers to a decent living. Employment in manufacturing has proved to be a useful component of the livelihood portfolios of both rural and urban households, with benefits to the economy as a whole. Manufacturing has a higher potential for employment creation than agriculture and traditional services. This is not to suggest that agriculture is dispensable or should be replaced by manufacturing in policy priorities. A thriving agricultural sector is the bedrock of a healthy manufacturing sector in providing raw materials and other inputs, markets for manufactures and foreign exchange. Both agriculture and manufacturing need to be taken seriously to maximise their synergies. The tiny middle class needs to expand to strengthen production and consumption, and business would benefit from this.

However we describe it, the message is that the benefits of the growth Africa is enjoying now have to be shared more equitably to sustain the trend. It is only then that it can translate into further economic growth and good social indicators and the reduction of the inequalities that threaten Africa's peace and stability. This provides a good basis for Africa's structural transformation and diversification of its economies, to reduce its vulnerability from cycles of growth and stagnation linked with global economic conditions. If not, no amount of optimism or pessimism will change Africa's predicament as the continent which much showed promise, but failed to deliver for its peoples.

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